

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF A CHANGE IN ITS GAS) PSC DOCKET NO. 15-1362
SALES SERVICE RATES (“GSR”) TO BE)
EFFECTIVE NOVEMBER 1, 2015)
(FILED SEPTEMBER 1, 2015))**

**DIRECT TESTIMONY OF
JASON R. SMITH
ON BEHALF OF THE STAFF OF THE
DELAWARE PUBLIC SERVICE COMMISSION**

JANUARY 27, 2016

1 **Q. Please state your name and business address.**

2 A. My name is Jason R. Smith, and my business address is 861 Silver Lake Boulevard,
3 Cannon Building, Suite 100, Dover, Delaware 19904.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Delaware Public Service Commission (the “Commission”) as a
6 Public Utility Analyst.

7 **Q. How long have you been employed by the Delaware Public Service Commission?**

8 A. I have been employed by the Commission since April of 2010.

9 **Q. What is your educational background?**

10 A. I graduated with an Associate of Applied Science Degree from Delaware Technical and
11 Community College in 2005. In 2008, I received a Bachelor of Science Degree in General
12 Studies from Wilmington University. And in 2016, I will have graduated with a Masters
13 of Business Administration from the same institution.

14 **Q. Briefly describe your duties and responsibilities with the Commission.**

15 A. Apart from being the case manager for this proceeding, I examine monthly, quarterly, and
16 annual reports for Chesapeake Utilities Corporation – Delaware Division (“Chesapeake”
17 or the “Company”). This includes the examination of all monthly over/under collection
18 reports, monthly financial statements and summary trial balance reports, quarterly gas
19 hedging reports, quarterly rate of return reports, annual supply plans, and main extension

1 filings. I also have typically served as the case manager for a number of various types of
2 filings made by Chesapeake since 2012.

3 My other duties and responsibilities with the Commission include serving as a case
4 manager or team member to perform reviews of various utility applications such as rate
5 case filings, stock and debt issuances, or requests for tariff revisions. Additionally, I
6 prepare reports and other schedules in other proceedings, make written recommendations
7 to the Commission, and perform other related tasks as assigned. In conjunction with my
8 work in rate case filings, I participate in the planning and execution of the required audits
9 of regulated companies, including performing a review of supporting documentation at
10 utilities' offices to evaluate and make recommendations regarding the financial and
11 managerial condition of those utility companies.

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. I was assigned as Case Manager to review Chesapeake's Application for a Change in Its
14 Annual Gas Sales Service Rates (the "Application") to ensure that the proposed rates are
15 just and reasonable and that they comply with Chesapeake's tariff. I have examined
16 Chesapeake's Application, including the testimonies and schedules; Chesapeake's
17 responses to Staff and the Division of the Public Advocate's ("DPA") data requests; prior
18 GSR dockets, orders, prior settlement agreements; and Chesapeake's quarterly hedging
19 reports and the Long-Term Supply and Demand Strategic Plan ("Supply Plan") for the
20 period 2014/2015 through 2018/2019. My testimony will include a recommendation to the
21 Commission regarding the treatment of this Application.

22 **Q. Please identify other analysis performed on behalf of Staff as part of this proceeding.**

1 A. Mr. Jerome D. Mierzwa, Vice President of Exeter Associates, Inc., was retained to review
2 forecasting demand requirements, seasonal and design day capacity, lost and unaccounted-
3 for gas, overall gas procurement and hedging purchasing practices, and the management of
4 the Company's gas supply as part of this proceeding. Mr. Mierzwa will also be submitting
5 direct testimony detailing his findings and recommendations regarding the treatment of this
6 Application.

7 Q. **How is your direct testimony organized?**

8 A. My direct testimony is presented as follows:

- 9 I. Summary of the Company's Application and Staff's recommendation
10 related to the approval of the gas sales rates and firm balancing rates
11 proposed by the Company; and
- 12 II. A review of the terms of the settlement agreement and the Company's
13 compliance with such agreement reached in the most recent GSR
14 proceeding for the Company, which is PSC Docket No. 14-0299.

1 **I. Summary of the Company's Application**

2 **Q. Please provide a brief summary of the Company's Application.**

3 A. On September 1, 2015, Chesapeake filed the Application with proposed changes in its Gas
4 Sales Service Rate ("GSR") as follows:

- 5 • to decrease its GSR for customers taking service under rate schedules RS-1, ERS-
6 1, RS-2, ERS-2, GS, EGS, MVS, EMVS, and LVS from \$1.069 per Ccf to \$0.681
7 per Ccf; and
- 8 • to decrease its GSR for customers taking service under rate schedules GLR and
9 GLO from \$0.552 per Ccf to \$0.218 per Ccf; and
- 10 • to decrease its GSR for customers taking service under rate schedule HLFS from
11 \$0.849 per Ccf to \$0.488 per Ccf; and
- 12 • to increase its firm balancing rate for transportation customers taking service under
13 rate schedule GS and EGS from \$0.000 per Ccf to \$0.081 per Ccf; and
- 14 • to increase its firm balancing rate for transportation customers taking service under
15 rate schedule MVS and EMVS from \$0.000 per Ccf to \$0.091 per Ccf; and
- 16 • to increase its firm balancing rate for transportation customers taking service under
17 rate schedule LVS from \$0.058 per Ccf to \$0.073 per Ccf; and
- 18 • to increase its firm balancing rate for transportation customers taking service under
19 rate schedule HLFS from \$0.012 per Ccf to \$0.024 per Ccf; and
- 20 • to increase its firm balancing rate for transportation customers taking service under
21 rate schedule ITS from \$0.001 per Ccf to \$0.014 per Ccf; and

1 As authorized by Order No. 8792 (September 22, 2015), these rates went into effect on a
2 temporary basis, subject to refund and pending further review and a final decision by the
3 Commission, for gas service usage on and after November 1, 2015.

4 **Q. Were there any subsequent revisions to the GSR?**

5 A. No. To date, I am not aware of any revisions to the GSR filed by the Company.

6 **Q. What impact will this proposed GSR Application have on an average residential**
7 **heating customer as compared to the last GSR filing?**

8 A. When compared to the rates that were previously in effect, a typical residential heating
9 customer that uses between 110 and 120 Ccf per month during the winter heating season
10 will experience a decrease ranging from approximately 26.7% to 27.1%, ranging between
11 \$42.68 and \$46.56 per winter month. While the average residential customer using 700
12 Ccf per year will experience an annual decrease of approximately 24.2% or \$22.63 per
13 month depending on their usage characteristics.

14 **Q. Did you review the schedules and calculations contained in the Application for**
15 **accuracy and conformance with the Company's existing GSR tariff?**

16 A. Yes, pursuant to 26 *Del. C.* §303(b), the Company has complied with and met the filing
17 requirements needed to allow it to implement the proposed rates. I have also reviewed and
18 verified the mathematical accuracy of the schedules and calculations provided in the
19 Application and determined that they conform to the Company's GSR tariff.

20 **Q. Does Staff have any recommendation related to the GSR and firm balancing rates**
21 **requested by the Company as part of its September 1, 2015 Application?**

1 A. Yes. Staff has reviewed the Company's original Application including the supporting
2 schedules. Based on that review, as well as the responses and documentation provided
3 during discovery, Staff recommends that the Commission approve the GSR and firm
4 balancing rates as submitted by the Company. Staff finds that the rates are just and
5 reasonable and are in the public interest.

1 **II. Review of Settlement Agreement Terms and Compliance with PSC Docket No. 14-**
2 **0299**

3 **Q. Please summarize the provisions of the settlement agreement reached in PSC Docket**
4 **No. 14-0299 and your understanding of the Company's compliance with those**
5 **provisions.**

6 A. The settlement agreement reached by the parties in PSC Docket No. 14-0299 and approved
7 by Order No. 8744 (July 7, 2015) (the "14-0299 Order") included the following terms:

- 8 • The Company agreed to continue to monitor the level of its under-collection
9 balance to determine whether a change in the methodology used to calculate its
10 GSR rate is necessary. I have also been monitoring Chesapeake's monthly
11 filings of its Over/Under Collection report. The most recent estimate of the
12 Company's projected under-collection is \$5,615,075, or 14.66% of the total
13 projected firm gas costs for the twelve months ending October 31, 2015.¹ This
14 percentage exceeds the threshold of 4.5% as identified on Sheet No. 42 of the
15 Company's Delaware Division tariff.² The Company did address its over-
16 collection with a supplemental application filed on May 28, 2015. On June 16,
17 2015, the Commission later granted a waiver of the Company's tariff provision
18 requiring it to put interim GSR rates into effect pursuant to Order No. 8753.
19 The Settling Parties have continued to monitor the under-collection balance and

¹ This report was filed with the Commission on December 10, 2015 with the calculation based on actual information from November 2014 through October 2015.

² Section XVI of the Company's Gas Sales Service Rates Tariff states, "The rates computed under this rate schedule shall remain in effect for the projected period provided...the latest estimated under collection does not exceed 6% of the actual firm gas costs incurred to date along with the Company's latest firm gas cost estimates for the remainder of the calculation of the over/under collection period (over/under period)."

1 at this time have not considered any changes in methodology regarding this
2 calculation and its effects to the GSR.³ I believe that it would be beneficial for
3 discussions to take place prior to the next GSR application to determine if there
4 is room to more efficiently address over or under collections in future filings.

- 5 • The Company agreed to continue to utilize its annual Long-Term Supply and
6 Demand Strategic Plan (“Supply Plan”) as a mechanism by which to notify the
7 Settling Parties of the need for all new capacity additions. When the Company
8 needs to acquire capacity in any given year that was not previously identified
9 in its most recent Supply Plan as being required in that year, the Company
10 agreed to continue to provide the information agreed to in the Settlement
11 Agreements in PSC Docket Nos. 08-296F and 09-398F regarding Eastern Shore
12 Natural Gas Company (“ESNG”) capacity acquisitions and agreed to begin
13 providing this information for potential upstream capacity additions as well.
14 The Company agreed to provide this information for both ESNG and upstream
15 capacity on a confidential basis only. The Company also agreed to continue to
16 review its design day forecasting methodology each year at the time the Supply
17 Plan is developed to ensure its validity. The Company also agreed to review
18 and comment on any alternative design day forecasting methodology proposals
19 submitted by either Staff or the DPA during the course of any review of the
20 Company’s Supply Plan. In my opinion, the Company has always readily
21 addressed any informal questions that result from the submissions of its Supply

³ The Settling Parties, or signatories, in the settlement agreement reached in PSC Docket No. 14-0299 were Chesapeake Utilities Corporation, the Division of the Public Advocate, and the Delaware Public Service Commission Staff.

1 Plans. Additionally, it appears the Company has complied with the provision
2 which requires it to give notice to Staff and the DPA of any capacity
3 acquisitions.

- 4 • The Company's Asset Management Agreement ("AMA") that was set to expire
5 on March 31, 2015 had been extended to March 31, 2017. Under the amended
6 AMA, the Company will continue to receive certain fixed margins on a monthly
7 basis. The Settling Parties agreed that with respect to said fixed margins, the
8 Company shall be allowed to continue to retain seven and one half percent
9 (7.5%) of the fixed margins, with the remaining ninety-two and one half percent
10 (92.5%) being credited to ratepayers in the Company's GSR rates. The
11 Company has complied with this provision as made evident by direct pre-filed
12 testimony of Ms. Sarah E. Hardy.⁴ This can also be verified by reviewing
13 Schedule A.2 of the Application which at the time of the filing showed the
14 projected amount of margin sharing to be \$2,531,346.
- 15 • Chesapeake agreed that prior to the expiration of the Company's existing AMA
16 or any renewal or extension of said Agreement, the Company will evaluate
17 options with regard to the management of its gas supply related assets and the
18 continuation of an AMA. To ensure that potential qualified service providers
19 are afforded an opportunity to submit competitive proposals with regard to an
20 AMA, the Company will issue a formal Request for Proposal ("RFP") before
21 renewing or extending the existing AMA or entering into a new AMA. With
22 the GSR application following the conclusion of any such RFP, the Company

⁴ See page 36, lines 6-11, of the Pre-filed Testimony of Ms. Sarah E. Hardy filed on September 1, 2015.

1 will provide (on a confidential basis) Staff and DPA with (a) a copy of the RFP;
2 (b) the number of entities receiving the Company's RFP; (c) the number of
3 responses; (d) evaluation criteria relied upon by the Company; (e) analysis of
4 bids; and (f) other documents as may be reasonably requested by Staff and
5 DPA. Essentially, the Company in its response to PSC-DPA-64 stated it would
6 recommend the use of an affiliate, Peninsula Energy Services Company, Inc.
7 ("PESCO") to manage its gas supply related assets at the conclusion of the
8 current AMA. Mr. Mierzwa in his pre-filed direct testimony dated January 27,
9 2016 discusses this matter in significantly more detail.⁵ Mr. Mierzwa believes
10 that Chesapeake should evaluate the reasonableness of its AMA with a
11 comparison of expected benefits for GSR customers should the Company
12 manage its upstream interstate pipeline capacity. In addition, he recommends
13 opening a discussion with the Company to discuss future AMA arrangements
14 with a Chesapeake affiliated company. I concur with Mr. Mierzwa on this
15 matter and recommend that further discussions take place with the appropriate
16 parties.

- 17 • The 14-0299 Order also provided that Chesapeake would be allowed to
18 continue to recover the Texas Eastern Transmission, LP ("Texas Eastern")
19 capacity costs and the ESNG capacity costs associated with the Texas Eastern
20 inter-connect. With respect to any capacity release revenues received outside of
21 the AMA associated with this capacity, one hundred percent (100%) of any
22 capacity release revenues associated with the release of this capacity would be

⁵ See pages 9-12, of the Pre-filed Testimony of Mr. Jerome D. Mierzwa filed on January 27, 2016.

1 credited to the GSR. Staff believes that there are no issues with this activity
2 because the Company has indicated that it has not projected any capacity release
3 revenues associated with the Texas Eastern capacity for the GSR period that are
4 to be received outside of the AMA.⁶

- 5 • Chesapeake agreed to provide Staff and the DPA with periodic updates
6 regarding any intervention by the Company in Federal Energy Regulatory
7 Commission (“FERC”) proceedings and the actions taken by the Company on
8 behalf of the Company’s ratepayers, including, but not limited to, an
9 enumeration of each issue and the position that the Company is actively
10 pursuing. The Company also agreed to provide such periodic updates to Staff
11 and the DPA subject to the Company’s ability to provide this information to
12 Staff on a confidential basis when appropriate. Staff continues to monitor
13 FERC proceedings which may involve intervention by the Company. To date,
14 Staff is not aware of any failures by the Company to provide notification to
15 Staff and the DPA regarding notices of intervention. Thus, Staff believes that
16 the Company has complied with this provision of the settlement.
- 17 • As agreed in prior dockets, the Company was to continue the following
18 practices: (a) the Company will notify the parties of any supplier refunds that
19 may impact the GSR charges; (b) the Company will continue to include in
20 future GSR applications an update on steps taken to mitigate the effects of
21 changes in gas costs; (c) the Company will provide information on the total
22 sales volumes, costs, and margins by month for Interruptible Gas

⁶ See page 36, lines 12-18, of the Pre-filed Testimony of Ms. Sarah E. Hardy filed on September 1, 2015.

1 Transportation sales as part of its GSR applications; and (d) the Company will
2 calculate the impact on its proposed GSR rates had a thirty-year average degree
3 days been used and provide such information as part of the discovery process,
4 when and if requested. To date, Staff is not aware of any failures by the
5 Company to provide the above mentioned notifications and practices to Staff
6 and the DPA. Thus, Staff believes that the Company has continued to comply
7 with this provision of the 13-351F Order.

- 8 • Lastly, in Chesapeake's 2013 GSR filing (PSC Docket No. 12-450F), Staff had
9 argued that it was unreasonable to require firm sales customers to pay for
10 upstream capacity in excess of their requirements. As part of the Settlement
11 Agreement in that docket,⁷ the Parties agreed that Chesapeake would file an
12 alternative proposal to the allocation of the cost of upstream pipeline capacity.
13 Chesapeake timely filed its proposal on October 1, 2013 and the filing was
14 subsequently docketed as PSC Docket No. 13-383. The Company, Staff and
15 the DPA reached a settlement agreement which was executed on April 16, 2015.
16 The Commission subsequently approved the adoption of the proposed
17 settlement agreement pursuant to Order No. 8752 dated July 21, 2015. Mr.
18 Mierzwa in his pre-filed direct testimony dated January 27, 2016 discusses this
19 matter in significantly more detail.⁸ In his testimony, Mr. Mierzwa believes
20 that the Company has incorrectly applied the recovery of excess upstream
21 interstate pipeline capacity costs from firm sales and transportation customers

⁷ The Commission approved the Parties' Settlement Agreement in PSC Docket No. 12-450F via Order No. 8430 (August 13, 2013).

⁸ See pages 4-9, of the Pre-filed Testimony of Mr. Jerome D. Mierzwa filed on January 27, 2016.

1 and believes that an additional \$188,867 should be credited to firm sales
2 customers. I have reviewed Mr. Mierzwa's testimony and supporting schedules
3 and agree with his position on this matter.

4 **Q. Do you have any additional matters to address?**

5 A. No.

6 **Q. Does this conclude your testimony in this proceeding?**

7 A. Yes.